

## **The Patient Protection and Affordable Care Act Premium Tax**

Section 9010 of the ACA and Section 1406 of the Reconciliation Act impose an annual tax on the health insurance industry beginning in 2014. The tax is based on each covered insurer's relative share of premium revenues and is calculated in August on the previous year's premium revenue. The tax is then due by September of that year. It is estimated that this year's tax will be approximately 1.9%-2.3% of premiums. Final amounts will not be known until the calculation is done in August of 2014.

All insurance plans are subject to the tax including those plans that are Medicaid only. The tax applies to health, dental and CHIP plans. Non-profit providers pay only 50% of the liability of a like for-profit insurer or are exempt if more than 80% of revenue is from government programs for the low-income, elderly, or disabled. For-profit insurers with premiums above \$25 million net premiums are given no exemption, even if all of their revenue is from programs for the low-income, elderly, or disabled.

### **Performance Measures:**

Medicaid Plans operate on an actuarially sound, but very limited margin. Managing care, resulting in the documented savings to the State through slower growth in medical spending, is dependent on being able to have adequate administrative resources to appropriately control costs. Failure to fund this tax liability created by the federal government jeopardizes plans' ability to control these Medicaid cost trends. None of the Plans will retain any of this funding. No expansion of Medicaid will result from this funding.

This is not a request for an optional increase in funding to the Plans assisting the State to serve its Medicaid enrollees. This is a liability created by the federal government. Medicaid plans do not have the ability to independently adjust rates or benefits to offset this cost of doing business.

### **FAQs**

**1. *What is unique about taxing the ACOs?***

Because Medicaid plans have their rates set by the State, there is no ability for the plan to independently adjust the rates to compensate for the increased costs associated with the tax. Therefore, consideration of the tax must be done in conjunction with the rate setting.

**2. *How did Utah's actuaries deal with the tax as a part of the rate setting?***

Milliman is aware of new Actuarial Standard of Practice requiring acknowledgement of all taxes in capitation rates. Milliman will reflect the Health Insurer Fee in future rates recommendations.

**3. *How is the tax calculated?***

The tax amount is set (\$8 Billion in FY2014) and has an inflationary index each year. Once the tax amount is set, that number is divided by premium revenue to determine the tax liability for each company.

**4. Are CHIP Premiums affected?**

Yes, CHIP premiums are included if provided by an ACO or any other private provider not eligible for the exemption.

**5. If the national numbers are \$8 Billion what are the numbers for Utah's ACOs?**

For 2014 the total tax liability and amount to cover the non-deductibility of the tax on state and federal taxes is approximately \$8 Million. The following is the breakdown by plan\*:

- i. Molina: \$5.0 Million
- ii. SelectHealth: \$2.3 Million (Eligible for 50% reduction as non-profit)
- iii. Health Choice Utah: Qualifies for an exemption
- iv. Healthy U: Qualifies for an exemption
- v. Premier Dental: \$450,000

**6. Does that tax escalate and what are the numbers of the next several years?**

- a. Yes the tax does escalate. While that national industry-wide tax is \$8 Billion in FY2014 it increases to \$14.2 Billion by 2018.
- b. The amount of the estimated tax and impact of non-deductibility by plan is as follows:

	<u>Members subject to Tax**</u>	<u>2014***</u>	<u>2015***</u>	<u>2016***</u>	<u>2017***</u>	<u>2018***</u>
Molina	76,017	\$5.0M	\$6.0M	\$6.1M	\$7.5M	\$7.6M
Select Health	93,515	\$2.3M	\$3.1M	\$3.2M	\$4.0M	\$4.1M
Health Choice	2,593	Exempt	Exempt	Exempt	Exempt	Exempt
Healthy U	41,531	Exempt	Exempt	Exempt	Exempt	Exempt
Premier Dental	n/a	\$450K	\$600K	\$612K	\$756K	TBD

\*Estimates for SelectHealth, Health Choice Utah, Healthy U, and Premier Dental were provided to Molina by the individual ACOs.

\*\*Based on October 2013 membership, including CHIP.

\*\*\* Please note these are estimates based on current market share as proportioned to all plans, nationally. These numbers may change as the proportionate share of the market shifts.